MARKETING ADDING EXTRA VALUE THROUGH THE CHAMPIONING OF THE DEMOCRATIZATION OF CORPORATE PURPOSE

John Jackson, Central Queensland University, Australia

ABSTRACT

Despite the long and checkered (albeit successful) history of democracy, its record within corporations has not been widely regarded as a success. Trust in the ethical behaviour of business people, and their sense of responsibility to the various stakeholder groups has never been good, but is at a particularly low ebb now. The sheer dynamism of the present business environment only accentuates the need for progress. There are many relevant issues in law, corporate governance and personal values, amongst others. This paper addresses only one: the need for greater democratization of corporate purpose and the ability of marketing to champion this and thus create and deliver greater value. The paper outlines the challenges of greater democratization and why marketing is better placed than other functional areas to contribute positively towards a new framework and era. It also briefly debates the workability of the most troublesome options – the stakeholder corporation, the tightly – held shareholder corporation, and the manager – controlled company and the 'shareholder value maximizing' corporation masquerading as a stakeholder-oriented business.

INTRODUCTION

Democratic societies, amongst other things, are supposed to offer freedom of choice and association. The better democracies combine the pursuit of more freedom of choice with both the pursuit of a more effective and efficient economic system, and also careful attention to the checks and balances necessary to continually defend that democracy. Despite the long and checkered (albeit successful) history of democracy, its record within corporations has not been widely regarded as a success. Trust in the ethical and democratic behaviour of business people is at a particularly low ebb now, and is threatening the survival of the free enterprise system. While there are important leadership, legal, accounting, and cultural issues needing solutions, one area where this vital combination apparently needs some attention is in the pursuit of more democratization of corporate purpose. (Kelly 2002, Gould 2000, Ackoff 1994, American Law Institute 1994, Argenti 1993., Campbell 1997 and 1993, Dahl 1993; Kantor 1992). Interestingly our developed societies today seem to have a much wider array of choices for products, services, and even entertainment than we have for types of corporations we can choose to work for or to deal with. This does not seem healthy, and Marketing can help as the 'concept champion'.

A FRAMEWORK FOR DISCUSSION

This paper is an ideas piece, 'an idea whose time has come', it is contended here. The paper is not grounded in political theory, or law, or moral philosophy, as defined by any of these professions. It has come out of the eclectic fields of corporate governance and stakeholder theory.

Most democratic economies appear to have, on paper, considerable democratization of corporate purpose. Available to the citizens are, for example, (shareholder-owned) companies, worker cooperatives, consumer cooperatives, privately-owned enterprises and government/community-owned entities. Some would argue that this system is working perfectly, while others would not: Certainly it has economically proved itself better than totalitarian alternatives like communism, but that is a reactionary and worthless binary comparison. In much of the developed world, the limited liability, shareholder wealth-maximising corporation has emerged supreme, and the other alternatives mentioned above are largely options in name only.

There are however at least 3 highly-debatable options in our choice of corporate alternatives – the so-called Stakeholder Corporation, the tightly-held, limited/no voting shares version of the so-called Shareholder Corporation, and the manager-controlled 'shareholder' corporation.

Each of these has become, through rhetoric or action, more powerful or more pressing as a corporate entity requiring attention. The framework for this discussion paper is based on some key observations from both a corporate governance and stakeholder management standpoint, both of which suggest defects in our present system and some fruitful avenues worth pursuing.

SOME OBSERVATIONS

The author offers the following personal observations which together lead to some recommendations which should benefit not only companies but individuals, stakeholder groups, and other constituencies or interest groups.

1. A fully developed democracy needs to be able to accommodate a wider range of viable and contesting corporate purposes and structures than we have at present. An increasingly pluralistic and diverse society, operating globally, locally, and often electronically, will need to learn from others, adjust, and structure themselves in better ways in order to have a clearer purpose. Motivation will always be sub-optimal when participants don't agree with a single-group fixation such as shareholder wealth maximization.
2. The shareholder corporation and the (allegedly) stakeholder corporation have their staunch advocates, their successes and their unique strengths, and should be allowed and encouraged to co-exist. However, investors, customers and others should not be restricted to such a small pool of options.
3. Stakeholder theory has progressed well as a normative ethical theory, but not very well in terms of both corporate governance and strategic management (Hendry 2001) Despite the rhetoric, it is difficult to point to any significant 'stakeholder corporations' in both word and deed.
4. While stakeholder rhetoric has entered the mainstream of business thinking, the actual practice has not (Kelly 2002). Valuable contributions from stakeholder theory are in danger of becoming public relations slogan to justify the single-minded 'mantra' of shareholder value that is sweeping the business community.
5. As long as managers and companies continue to be judged predominantly on a (shareholder – and manager-oriented) single scorecard, stakeholder theory in a practical sense has a fatal flaw.
6. Progress in stakeholder theory and practice is unlikely until there is a widely accepted distinction between 'the stakeholders' and other 'constituencies or interest groups'. As long as the theory persists in including "everyone who can help or harm an organization", for example, the term 'stakeholder' will not have any precise managerial or legal meaning. Argenti (1993) has argued strongly that, wherever organizations have multiple stakeholders and an unclear purpose, those stakeholders without power become 'residual legatees' and suffer accordingly.
7. Board members, managers and the law cannot be expected to give prioritization and/or satisfy the claims of 'stakeholders' unless they are officially recognized and endorsed. Without this, they have no basis for accepting or denying the claims of alleged 'stakeholders' other than in terms of the non-specific, personally-determined criterion of something being or not being "in the interests of the company as a whole".
8. Presently the shareholders are the only group with a general prioritization position over others in law and by convention, while liquidators, creditors and the taxation authorities have specific legal priority status. States with 'stakeholder statutes' force consideration of stakeholder interests, but this is done by judges and by directors and managers in an unspecified manner, and usually without direct reference to, or permission from, key nominated stakeholders.
9. It is argued here that some stakeholders and constituencies are dealing with shareholder corporations wrongly believing that they are stakeholder-oriented (as a result of their and others' pronouncements), while others are dealing with potential stakeholder corporations wrongly believing that they are shareholder-oriented. The same applies to confusion about the corporate purpose of a management controlled firm that wrongly appears to be shareholder-oriented, or a limited/no voting share situation where the corporation's purpose is wrongly assumed to be oriented to shareholders in general rather than the special group of controlling shareholders. These situations are neither fair, honest nor likely, to be optimal over the long term, especially in an environment of disbelief following the collapse or downgrading of once 'investment-grade' corporations.
10. It is not sufficient to just hope that the present shareholder value maximizing stockholder corporation (whether manager-controlled or with limiting voting rights and tightly held) will 'democratize' by offering employees more participation in discussions (Gould 2000). This present paper is emphasing the need for broadening the viable options, not employee participation as the solution in itself.
11. It is hard to imagine how marketers can consistently create and deliver extra value to customers and others in such an environment of confusion and cynicism.

SOME RECOMMENDATIONS

As these recommendations are all for businesses, they all presume a satisfactory profit and return on investment, whether for shareholders, specific stakeholders or any combination thereof. It is recommended that the following improvements be considered:

1. 'Stakeholders' in a stakeholder corporation would need to not only have 'a stake at risk' and legitimacy, power, and/or urgency, (Mitchell, Agle and Wood 1997) but most importantly, official sanction in the Memorandum and Articles of Association, the written Mission Statement, Company Codes, and probably in certain AGM resolutions. A stakeholder corporation would specify exactly who were the stakeholders, and may or may not choose to prioritize all of them in any way. All other interested parties would be treated as constituencies. Similarly, a single stakeholder firm (eg. shareholders, or workers, or consumers) would legally and conventionally give official sanction to that one stakeholder group, and all other parties would be constituencies or interest groups.
2. Every organization would thus have to declare openly and honestly what type it is. Obviously all types of organizations must comply with the law of the land, which would include safeguards for interest groups and the environment as well. Social mores would also affect the choices made, as would societal expectations of good corporate citizenship. Thus a shareholder corporation would unequivocally orientate itself around the stockholders, stop pretending that it is stakeholder-driven, but clearly state how it intends being a good corporate citizen within its stated investor-focussed purpose. The marketing department would market according to that mandate.
3. Managers (and others) would know the endorsed priorities of the organization, could choose better how well these matched their personal values, and the judgement of their performance would be tailored to the right scorecard. Customers, shareholders and others would be better placed to decide with whom they wanted to do business, and why.
4. Government social policy might be used to steer choices into desired directions. For example, preferential tax laws might apply to encourage certain decisions and practices. Some business types would pay more in taxes wherever they were externalizing social costs and not specifying the community as a designated stakeholder.
5. Various mechanisms would be needed to allow and to facilitate decisions to move between categories of corporation. Official sanction would remain mandatory, whatever the corporate purpose, but obviously the economic system must allow flexibility and adaptability in a rapidly changing environment.
6. Pressure groups and other 'checks and balances' mechanisms would operate as usual, but the 'rules of the game' in each case would be clearer.
7. Measures of performance, either on the balanced scorecard of the stakeholder firm, or the single scorecard of the single-group oriented firm, could then be more rigorous, clearly understood and demanding.
8. Appropriate lessons could be learnt about the best ways to structure, govern and manage other options from "stakeholder economies' like Germany and Japan (Hendry 2001), amongst others. Careful attention would especially be given to how marketers in those situations used the special circumstances to create and deliver extra value.

SOME POTENTIAL SHORTCOMINGS

All worthwhile proposals have their shortcomings, and these are no different. But separating the 'baby' from the 'bathwater' we must surely try to do. Here are some of the problems (with a few ameliorating possibilities):

1. Who will provide the funds in a stakeholder business if started from scratch? This is a difficult yet crucial issue. Presumably investors, managers and employees who believe in stakeholder management rather than single-focussed firms would be the most likely. It might also be necessary to provide government and societal incentives in the first instance.
2. Who would start an entrepreneurial stakeholder firm? The answer is probably the same as item 1 above. Presumably this would give a nice opportunity for community-minded entrepreneurs who are uncomfortable with the single financial return scorecard.
3. Who would receive the net assets upon winding up a stakeholder business? The law would need to specify the process and the order of prioritization as it does with the existing shareholder and co-operative businesses.

4. How would an existing, established shareholder-oriented firm convert to become a stakeholder corporation? Presumably, after the shareholders agree that it was beneficial to do so, they would collectively and officially change the company documents identified earlier, and together with the managers, bankers, etc. they would facilitate new shareholding or stakes across the specified stakeholder groups, (plus other pertinent matters).

MARKETING'S SPECIAL CHAMPIONING ROLE

Why would marketers need to be concerned about the greater democratization of corporate purpose, let alone champion it? If one agrees with the general intent, what would be the position of the other functional disciplines? In the case of the accounting and finance fields, their 'addiction' to shareholder wealth maximization, shareholder value and the single scorecard precludes them as a group from leading a change which would appear to complicate a 'single purpose game' that seems to work well. The human resource people tend to either champion the role of the employees as a forgotten but supreme stakeholder, or see the staff as a resource to be used towards shareholder wealth maximisation. This would make them unlikely champions. The operations, manufacturing and logistic people in the field are usually more concerned about day-to-day efficiencies and 'making things happen'. This is not to imply that any of these non-marketing experts as people are not concerned about improving democracy at work.

At first 'blush' the marketing people would also appear to be a single stakeholder advocate as well; after all, isn't the customer meant to be always right? Considerable evidence is available to support the view that the better approach in modern professional marketing is to view 'the market' as being always right, with shifting prioritization being required across the main stakeholder groups (Jackson 1998). It is the marketing function's special role and skill to take in 'the big picture'. Secondly, good marketers are accustomed to viewing and targeting consumers as external customers, employees as internal customers, shareholders as vital constituents within investor and public relations, and so forth. Thus marketing is well placed to champion this development, and thereby create and deliver greater value.

SOME VALUE ENHANCING OPTIONS

More than most other groups, marketers are experts in targeting and segmenting. Thus they are very well placed to tailor each corporate structure type to its targeted constituents. With precise segmentation research, more accurate democratic options could be possible.

Secondly, through their public relations skills, marketers are accustomed to interacting with various publics and either understanding their needs or persuading them of a point of view beneficial to that type of corporation and its leading stakeholders.

Thirdly, through the barrage of existing and potentially new marketing research techniques, marketers are able to better detect the nuances and subtle needs of those for whom the corporation has been designed or adapted.

Fourthly, as the shareholder-only focused corporation found it increasingly difficult to attractively engage all their non-investor interest groups, this development could well weaken the strangehold on business power of accountants and others who have become obsessed with shareholder wealth maximization. This could in turn elevate the power, prestige and influence of marketers in both these corporations and in the others where other stakeholders are genuinely significant. There should then be considerable opportunity to create and deliver extra value through marketing's extensive tool-kit.

Finally, the concepts of product values, value propositions, benefit analysis and service value delivery, for example, are all substantial opportunity areas for marketers, and each can readily be adapted to the different types of corporate purpose in the market place. Thus, for example, marketers would play a lead role in developing and managing value propositions for all the designated stakeholders in a stakeholder corporation, not only the customers. In a shareholder corporation, marketers would give as much attention to marketing to the investors as they do to customers.

CONCLUDING COMMENT

The case made here for greater democratization of corporate purpose is in outline only, and tailored for vigorous debate. There are no panaceas where people, power, 'pesos' and policies are concerned. Winston Churchill reminded us that "democracy is the worst from of government, except for all the others". From a stakeholder perspective, our corporations are democratically deficient. From a corporate governance and legal perspective, stakeholder theory is deficient. From an ethical and motivational perspective, single-stakeholder organisation pretending to be stakeholder-oriented are also deficient. As Kelly eloquently observes, (Kelly 2002, p 2-3), "The system is designed to serve certain people and not others... Because power is what it is all about, not good intentions or voluntary initiatives or toothless codes of conduct. We would do well to focus on democratizing structures of power. It is about consciously crafting new democratic system structures: structures of voice, structures of decision making, conflict resolution, accountability". Hopefully this paper contributes usefully along the path to greater democratization of corporate purpose.

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